



3 Ways to Transform Your Business with Sales Tax Automation

Introduction

Sales tax processes can have a surprising impact on transaction speed, customer satisfaction, internal IT resource needs, and corporate audit risk. Automating the sales tax calculation process can reduce this impact and accelerate transformation in your business.

Business transformation is about more than growing sales or revenue. It's also about changing how your company operates in order to advance your essential mission and “walk your talk” on key organizational values — such as putting the customer first or getting things right the first time. Strategic transformation efforts that focus on this bigger picture can realize many types of success: reduced risk, improved customer loyalty, increased accuracy, enhanced productivity and efficiency, and more.

Choosing the right time to streamline essential business processes amplifies transformational benefits.

“When your company is deploying, upgrading, or considering options for essential IT infrastructure such as enterprise resource planning (ERP), e-commerce, procurement, or customer relationship management (CRM) systems, that’s a great opportunity to integrate a sales tax automation solution.”

- Alexis Brink, Director of Solutions Marketing for Vertex.

This piece explores three important ways that automating sales tax determination with a cloud-based tax engine can positively transform your business.

Companies with any of the following attributes are likely to see the fastest ROI from integrating a tax calculation engine to their source system(s):

- Sales in at least five states
- Large number of products/ SKUs or frequent product introductions
- Complex IT footprint: multiple transaction systems for ERP, CRM, e-commerce, etc.
- Annual revenue of at least \$50 million
- Limited IT and tax staff





Transformation 1. Flexibility to Scale Up

Successfully scaling your business demands optimal IT infrastructure and processes. Exciting strategies to grow sales volume or revenue, acquire other companies, launch new products or lines of business, or enter new markets can have big side effects – including burdening systems and staff that handle the calculation, collection, and payment of sales tax.

“Sometimes, the tax department puts the brakes on expansion and growth because so much work is required to prepare to meet new tax requirements. If the tax team and their systems are not agile enough to ramp up quickly, companies can miss opportunities and revenue.”

-Alexis Brink, Director of Solutions Marketing for Vertex.

Keeping up with the latest sales tax rates is especially daunting. The U.S. has more than 11,000 sales tax jurisdictions, with changes announced in jurisdictions at any time throughout the year. For every sales transaction, your company must immediately apply the correct sales tax rate in accordance with the latest rules on the date of the sale. Errors based on outdated information are common.

“Applying tax legislation to business practices demands flexibility across an ever-growing variety of taxes and range of business models. This requires lightning-fast performance of complex calculations,”

- Chris Zangrilli, Vice President of Technology Strategy for Vertex.

Many companies rely on the native sales tax capabilities built into their enterprise resource planning (ERP) systems. These can calculate sales tax, but generally they cannot automatically update rates across every jurisdiction where sales are made. Instead, staff in the tax department usually must spend significant time collecting updated rate information. Then, they must send tax updates to IT for ERP implementation. This is where the process tends to bog down. ERP updates are not simple, and IT departments often prioritize revenue-generating work over business processes. Delays and errors (including manual data entry problems) in the process of updating tax information in ERP systems are common – yielding avoidable errors, risks, and costs.

Exemptions are another important aspect of ensuring tax accuracy. Sellers must confirm the accuracy and validity of sales tax exemption certificates for tax-exempt transactions. Without automation, this can be laborious and time-consuming.

Companies can reduce most of these headaches and hassles with a single tax engine, integrated with multiple transaction systems across the enterprise. A centralized, cloud-based, enterprise-wide tax calculation engine removes the need for IT teams to make tax updates in each system. The tax engine provider continually updates tax content according to the latest regulations across the jurisdictions. When a tax engine is integrated across multiple source systems, sales tax gets calculated in one place regardless of the transaction system, which makes tax calculations consistent across the business. This frees up considerable capacity in systems and staff, accelerating work and empowering your company to scale up and advance other strategic goals.

Transformation 2: Control Risks and Costs with Enhanced Accuracy

Compliance is the top sales tax consideration. Each month, sellers must generate and file returns and make payments to each jurisdiction where they had sales that month. Hundreds or thousands of monthly filings might be required.

“Sales tax automation that utilizes current, verified tax information from a centralized sales tax engine, and seamlessly integrates into ERP, e-commerce, or point-of-sale (POS) systems, is more than just a business system — it’s a risk management and financial management tool.”

-Alexis Brink, Director of Solutions Marketing for Vertex.



To ensure accurate filings and payments, tax data should be consolidated across business units and systems and then separated into individual tax jurisdictions. Without a centralized tax engine, the data manipulation needed to complete these essential processes is highly manual, time-consuming, and error-prone.

Errors in calculating, collecting, and paying sales tax represent a significant business risk. Responding to sales tax audits is cumbersome. Tax personnel get pulled away from their normal duties for hours or days at a time to query data and generate reports for audit response. The extra costs in staff time and penalty payments can be substantial. Managers of tax and sales departments, as well as C-Suite executives, can be especially sensitive to this burden. The safer and more cost-effective approach is to identify and fix errors before submitting filings. Accuracy starts with the tax calculation. If tax is not accurately calculated at the time of transaction, returns and payments won't be accurate, and risk can skyrocket.

Errors are not the only sales tax risk of concern to growing companies. Higher sales volume multiplies the number of transactions and calculations, which causes operational bottlenecks that can noticeably slow sales transactions and frustrate customers. Especially in online commerce, customers are accustomed to real-time commerce. Milliseconds count. If a purchase from one seller seems stalled even for a few moments, the customer might be ready to click “buy” on a similar offering from another seller in the next web browser tab.

“Customers may abandon sales if the tax calculation is slow or incorrect. You can also see this in physical stores when customers opt to leave the store when there is a long line at checkout.”

- Chris Zangrilli, Vice President of Technology Strategy for Vertex.

When companies establish a strong track record of filing accurate sales tax returns, on time, in every jurisdiction where they have sales, it helps build trust with tax agencies. This can make sales tax audits and penalties less frequent, complex, and costly. Also, reliably accurate and fast transactions help keep customers satisfied — and keep them coming back.

Transformation 3: Future-Proof Your Business

Fostering the agility to adapt to continuous change, and to generate continuous improvement, is essential to navigating the future of your business. Reducing risk (including the risk of disruption to IT operations, and financial risk from sales tax compliance problems) expands the capacity your business needs to scale up and innovate. This streamlining manifests in important, measurable ways, such as increased efficiency and accuracy.

Combining a data-driven architecture and a cloud architecture ensures that your sales tax system can evolve over time. A cloud-based tax engine also offers a notable deployment advantage: accelerated integration into a company's technology landscape via connectors and tax links.

Tax calculation is a critical part of generating quotes as well as invoices. The IT back-end of sales tax calculations — in real time or by batch, and in which type of system (ERP, billing, etc.) — can materially impact your customers when they make purchasing choices. Latency (the time needed to calculate sales tax and add it to a quote or invoice) matters to customers as well as to your IT systems and staff. Shaving seconds or even milliseconds from a sales transaction can add up to an appreciable business advantage. Many factors influence the time it takes to calculate and apply tax to a quote or invoice: network speed and size, sales complexity, and more.

Also, the software and hardware of internal systems involved with sales tax must not be overburdened by the volume or complexity of calculations.

“Low-bandwidth connectivity or large invoices that contain thousands of line items can slow down sales tax processes to a virtual crawl. For small, simple transactions or large, complex transactions, an automated system provides the lowest latency and the best customer experience — especially compared to manual processes.”

- Chris Zangrilli, Vice President of Technology Strategy for Vertex.

“Throughput (transactions per second) is another key measure of efficiency. A cloud architecture really makes a sales tax engine shine. Cloud architecture can auto-scale throughput to push the number of transactions per second into the millions.”

- Sal Visca, Chief Technology Officer for Vertex.

In addition to reducing business and financial risks, sales tax automation also makes people's jobs easier. Streamlined processes increase productivity, relieving employee stress and interdepartmental friction. Empowered employees are an essential resource for adapting to emerging business challenges and opportunities. People are the true engine of business transformation.



Conclusion: Chart Your Path to Business Transformation

To unleash the transformational power of sales tax automation, key departments and executives must recognize the potential of this solution. Exploring the following questions can spark conversations that can yield substantial improvements in how your company handles sales tax:

- How do we handle sales tax calculation today? How do we gather the latest sales tax rates for all jurisdictions where we have sales? How do ongoing updates get entered into our IT infrastructure to support sales tax calculation in our transaction systems? (ERP, e-commerce, procurement, CRM, etc.)?
- Are we doing the best possible job with sales tax?
- How often do we have sales tax audit penalties, and what has been causing them?
- Where are the bottlenecks? Which of our sales tax processes or systems keep getting bogged down? Which of our sales tax processes or systems impact transaction accuracy and speed?
- Who does the sales tax work? Which departments and individuals are routinely tasked with sales tax tasks, whether or not it's part of their core responsibilities?
- How does this impact their other responsibilities? Which IT systems are involved? Which systems are used for, or impacted by, sales transactions, sales tax calculation, and customer checkout?
- How could we improve? Where are the opportunities to simplify and enhance sales tax processes, and reduce manual error-prone tasks?
- What are the benefits? Which departments and employees would probably see demonstrable benefits from sales tax automation? How might it impact IT department efficiency and sales tax audit performance? Where could we refocus staff on higher value work? Could we capture more revenue or accelerate growth in some area?

After gaining clarity on these issues, it's time to plan how to make this project happen. Investments in this solution usually are made from the IT budget, since IT staff and systems handle system integrations.

However, tax, accounting, legal, and other departments also would be involved. Reputable providers of sales tax engines and services offer considerable implementation support to companies implementing these solutions.

“Bringing all of these stakeholders together – plus finding a champion for this project in the C-Suite – yields creative teamwork and motivation. This can help transform your company into a more agile, productive, happier, and less risky and costly business.”

-Alexis Brink, Director of Solutions Marketing for Vertex.

Technology Advice



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